

PUBLIC DISCLOSURE

November 25, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

LEE BANK

**75 PARK STREET
LEE , MA 01238**

**DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of LEE BANK prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated “Outstanding”.

Lee Bank's CRA rating is based on five performance criteria, prescribed within the CRA Small Institution Examination Procedures, and which are evaluated within the bank's performance context. The “outstanding” rating is based on; (1) an average net loan to deposit ratio of 131.1 percent; (2) a substantial majority of both mortgage and small business loans made within the assessment area, (3) an excellent lending distribution among borrowers of different income levels and businesses of different sizes, (4) a good geographic distribution of both residential and small business loans within the assessment area and finally, (5) regular implementation of fair lending policies and procedures. No discriminatory lending practices were noted. No CRA complaints were received by the bank.

At the bank's request, Lee Bank's qualified investments and retail services were also reviewed and found to demonstrate an excellent responsiveness to the credit and community development needs of its assessment area.

PERFORMANCE CONTEXT

Description of Institution

Lee Bank was originally chartered in 1852 as a mutual savings bank. Lee Bank became a stock savings bank in 1992 with the formation of Berkshire Financial Services, Incorporated, a mutual holding company. In December 2001, Berkshire Financial Services, Inc established a de nova bank, Freedom National Bank in Greenville, Rhode Island.

Lee Bank and its mutual holding company are headquartered at its main office on Park Street in Lee, Massachusetts. In addition, Lee Bank operates two full service branch offices located in Great Barrington and Stockbridge; both towns are situated in southern Berkshire County. A one-person loan production office is located at Elm Street, Pittsfield.

As of September 30, 2002, Lee Bank had total assets of \$231.0 million; total loans represented \$196.6 million or 85.1 percent of total assets. The following table depicts the composition of the bank's loan portfolio.

Loan Portfolio as of September 30, 2002		
Type of Loans	\$'s (000's)	% of Total Loans
Construction & Land Development	351	0.2%
Residential Real Estate		
a. 1-4 Family Mortgages	133,138	67.6%
b. Home Equity Lines/Loans	20,712	10.5%
Multifamily	317	0.2%
Commercial Loans		
a. Commercial Real Estate.	26,480	13.5%
b. Commercial Loans	9,920	5.0%
Consumer Loans		
a. Credit Cards		0.0%
b. Loans to Individuals	4,633	2.4%
Other Loans	1,092	0.6%
Total	196,643	100.0%

Source: FDIC Call Report of Condition.

First mortgage loans secured by 1-4 family dwellings represented the majority (67.6%) of the bank's loan portfolio. The second largest segment (18.5%) included commercial real

estate and commercial loans. Home equity/second mortgages, comprised the next largest portion (10.5%) of the portfolio. Lastly, construction loans, multifamily loans (5 units or more), consumer loans and other loans collectively, formed the remaining portion (3.4%) of total loans.

Lee Bank is an approved seller/servicer with both FNMA (Federal National Mortgage Association) and FHLMC (Federal Home Loan Mortgage Corporation) and an active Massachusetts Housing Finance Agency (MHFA) lender. The institution is also a certified Small Business Administration (SBA) lender. The bank's ability to meet community credit needs remains strong based on financial condition, size and product offerings.

The Division of Banks last conducted a CRA evaluation as of September 15, 1997, which resulted in the bank receiving an "Outstanding" rating. As of April 1, 1999, Federal Deposit Insurance Corporation (FDIC) also conducted a CRA evaluation that resulted in an "Outstanding" rating.

Description of Assessment Area

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which the bank will focus its lending efforts. The Division of Banks evaluates the institution's CRA performance based on the defined assessment area. Generally, assessment area(s) are expected to consist of Metropolitan Statistical Areas (MSAs) or contiguous political subdivisions such as counties, cities and towns. Lee Bank's assessment area is in conformance with the CRA regulation containing only whole geographies or census tracts.

Lee Bank's assessment area includes the following Berkshire County municipalities: Pittsfield, Richmond, Hinsdale, Lee, Lenox and Stockbridge, which are situated within the Pittsfield, MA Metropolitan Statistical Area (MSA); and the Non-Metropolitan (non-MSA) towns of Great Barrington, Sheffield, Becket, Otis and Washington, Hancock and New Ashford, West Stockbridge, Alford, Egremont and Mount Washington; Monterey, New Marlborough, Sandisfield and Tyringham. The Pittsfield MSA's area median income or median family income (MFI) was \$47,500 and 49,600 respectively, in 2000 and 2001. The median family income increased to \$50,400 in 2002. The Massachusetts' Non-metropolitan Areas median area income/median family income (MFI) was \$48,000 and \$50,500 for 2000 and 2001, respectively and in 2002 is \$52,100.

Demographic and Economic Data

Based on the 1990 U.S. Census, Berkshire County's total population was 139,352 residents. The bank's assessment area had a population of 86,554 residents. The largest population center was the City of Pittsfield with 48,622 residents. The second largest municipality within the assessment area is Great Barrington, which has 7,696 residents. The towns of Lenox and Lee are next in population size with 5,069 and 5,849

citizens, respectively. These four communities comprised 67,236 individuals or 77.7 percent of the assessment area's population. Berkshire County is situated on the Massachusetts' western border abutting the New York State border spanning from Vermont on the north to the Connecticut border on the south.

The assessment area contains 21 census tracts/geographies. The City of Pittsfield comprises 12 of these 21 census tracts. Pittsfield contains the only two low-income and two moderate-income tracts. Of the remaining eight tracts/geographies within the City, six are middle income geographies and two are upper income tracts. The towns of Lee, Lenox, Stockbridge, Great Barrington and Sheffield each comprise a middle income geography. The towns of Hinsdale, Becket, Otis and Washington share a middle income geography. Likewise, the towns of Monterey, New Marlborough, Sandisfield and Tyringham share a middle income census tract. Lastly, Richmond, Hancock and New Ashford make up an upper income census tract.

The CRA regulation defines income levels as low-income (less than 50 percent of the area median income), moderate-income (50 to 79 percent of median family income), middle-income (80 to 119 percent of area median income), and upper-income (120 percent and greater of the area median income). The census tract income levels are based on the median family income within the given tract/geography.

Based on 1990 U.S. Census data, the assessment area's population comprised 34,354 households of which 23,294 or 67.8 percent were family households. Households residing below the poverty level represented 9.2 percent of all assessment area households. The Massachusetts statewide percentage of households residing below the poverty level was 9.4 percent. Family households (by income levels) were distributed as follows: 18.8 percent are low-income, 18.8 percent are moderate-income, 24.2 percent are middle income and 38.3 percent are upper income families.

The following table outlines the distribution of households and housing units by the census tract income levels.

Housing Characteristics by Income Category of the Geography							
Geographic Income Category	Distribution by Percentage						Median Home Value
	Census Tracts	Households	Housing Units	Owner-Occupied	Renter-Occupied Units	Vacant Units	
Low	9.5	6.3	5.5	1.1	15.6	2.7	\$90,516
Moderate	9.5	11.9	10.6	6.2	22.7	4.6	\$82,147
Middle	66.7	70.0	73.3	76.7	58.0	86.7	\$127,240
Upper	14.3	11.8	10.6	16.0	3.7	6.0	\$142,309
NA	0.0	0.0	0.0	0.0	0.0	0.0	\$0
Total or Median	100	100.0	100.0	52.4	28.4	19.2	\$122,066

Source: 1990 U.S. Census data

The majority of households (70.0 %) reside within the middle-income geographies. Within these middle-income tracts, low-income and moderate-income households comprised 20.5 percent and 15.7 percent, respectively of all households. There were 6.7 percent of households residing below the poverty level. In comparison, within the moderate-income tracts, low-income and moderate-income households comprised 38.1 percent and 18.7 percent, respectively of all households. There were 21.0 percent of households residing below the poverty level within the moderate-income geographies.

The assessment area's housing stock is made up primarily of 1-4 family residential units (86.1% of total housing units), while multifamily dwellings (5 units or more) comprised a relatively small segment (10.7% of all housing units). In addition, the table shows that the majority of housing units are owner-occupied with 52.4% of all units in that category, while renter-occupied units comprise 28.4% and vacant units 19.2% of all units. The high level of vacant units is attributed to the level of second home ownership within certain communities in the assessment area.

The Warren Information Services compiles current home sale prices based on Registry of Deeds transactions. The following table compares year to date (January–October) median home prices for 2000, 2001 and 2002 within the municipalities shown.

	2000*	2001	2002
PITTSFIELD	83,000	93,913	100,000
LENOX	221,000	181,100	258,750
LEE	110,000	122,000	135,000
GREAT BARRINGTON	130,250	159,000	174,500
WEST STOCKBRIDE	130,000	163,750	190,000
STOCKBRIDGE	233,750	210,000	350,000

Source: Warren Information Services (Banker & Tradesman)

In general, home prices increased significantly in 2001 and 2002, when compared to 2000 price levels. Traditionally, the median home prices in Lenox and Stockbridge have been higher, due to the level of second home ownership within these towns. In contrast, second home ownership is at a minimal level within the City of Pittsfield. Housing costs for year-round residents is influenced by the second home market/buyer, especially within communities such as, Great Barrington, Lenox, Stockbridge and West Stockbridge. For Berkshire County, tourism and vacation (second) home ownership continue to be a significant and growing segment of the economy.

The Home Mortgage Disclosure Act (HMDA) requires lenders to report all purchase mortgages, refinances and home improvement loans to the FFIEC. Based on 2001 HMDA aggregate data, there were 200 active lenders within the assessment area. These lenders originated or purchased 3,165 HMDA reportable loans totaling \$389.5 million.

Based on HMDA aggregate data, Lee Bank held the largest market share for mortgage lending in both 2000 and 2001. In 2001, the top five competitors for mortgage lending within the assessment area were: (1) Lee Bank (13.9% market share); (2) Greylock

Federal Credit Union (10.4% market share); (3) Berkshire Bank (7.7% market share); (4) Plymouth Savings Bank, as a secondary market conduit (7.2% share); and (5) Pittsfield Co-operative Bank (6.7% market share). These lenders held a combined 45.9 percent market share of all mortgage loans reported under the Home Mortgage Disclosure Act (HMDA) requirements. Other locally- based financial institutions in the top 10 rankings were City Savings Bank, now part of Legacy Banks (ranked 6th /6.4% market share) and South Adams Savings Bank (ranked 8th/2.7% market share).

2000 U.S. Census

In the 1990's, Berkshire County's population declined however, the number of households showed a slight increase (3.0%). This compared to statewide and national household increases of 9.0 and 15.0 percent, respectively. In the Berkshires, married couples comprised the largest household type (47.0%) with the second most common household type (32.0%) consisting of people living alone. Statewide, married couples and people living alone comprised 49.0 and 28.0 percent, respectively of all households.

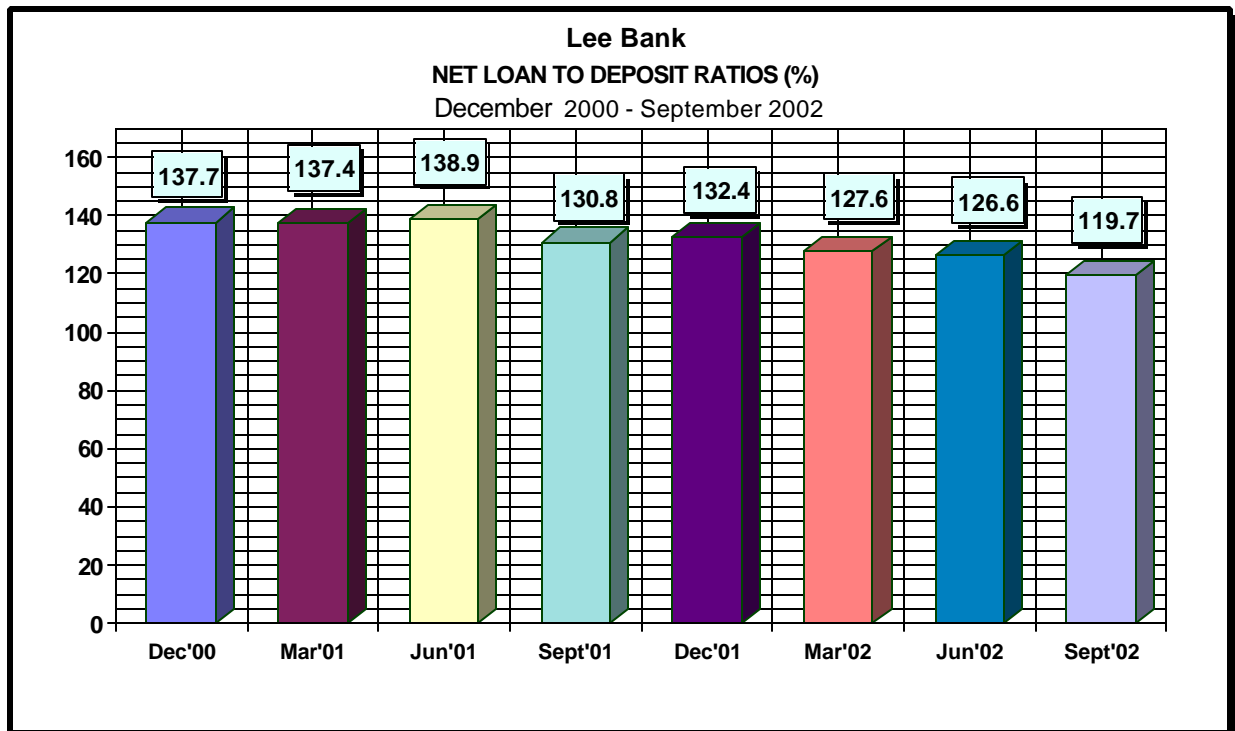
Based on 2000 U.S. Census data for Berkshire County as a whole, median family income stood at \$50,162 representing only 80 percent of state median of \$61,664. The median value of owner occupied units was \$116,800, while the statewide median value was \$185,700. Median gross rent was \$499 in the Berkshires representing 73 percent of the Massachusetts statewide median rental of \$684.

The 2000 Census counted the population of Berkshire County age 16 and over at 108,466 with 63.4 percent in the labor force. In the Berkshires more people (18,094 or 27.7%) were employed in educational, health and social services than other industries. Manufacturing and retail trade employing 12.9 percent and 12.8 percent of the population respectively. Lastly, the arts, entertainment, recreation, accommodation and food services employed 6,558 or 10.1 percent of labor force in the county's "cultural tourism" and recreation industries.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

This first criterion evaluates the level and trend of the bank's net loan-to-deposit ratio. The average net loan-to-deposit ratio is 131.1 percent for the period from December 31, 2000, through September 30, 2002. Lee Bank's performance is considered more than reasonable given the institution's lending capacity and the credit needs of its assessment area. The following graph depicts the loan to deposit ratio level and trend for the quarters reviewed.



As depicted above the bank's net loan to deposit ratios were well above 100 percent of deposits. The excess of loans to deposits is explained by the institution's support of community credit goals/needs through the use of Federal Home Loan Bank borrowings. Furthermore, the net loan to deposit ratios demonstrated a declining trend, due to deposit growth (16.9%) outpacing a modest (3.2%) loan growth. At the same time, FHLB borrowings declined in proportion (by 17.4%) to the growth in deposits.

Furthermore, Lee Bank actively sold 653 mortgage loans totaling up to \$74.2 million in 2000 and year-to-date 2002. These loans were sold to Freddie Mac (507 loans), Fannie Mae (15 loans) and MassHousing (131 loans). Mortgage loans sales to the secondary market enhance an institution's lending activities by providing further monies with which to fund community credit needs.

The following table provides a comparison of Lee Bank's net loan-to-deposit ratio with four other locally based financial institutions.

INSTITUTION	NET LOAN TO DEPOSIT RATIO*
Berkshire Bank	104.9%
Greylock Federal Credit Union	124.7%
Legacy Banks	84.0%
Lee Bank	126.6%
The Pittsfield Cooperative Bank	85.2%

*Source: FDIC Call Report data 6/30/02.

The institutions are listed in descending order by asset size; ranging from the largest, Berkshire Bank (\$1.0 billion) to the smallest, Pittsfield Co-operative Bank (\$187.3 million). Lee Bank is second smallest in asset size (\$227.0 million), yet continues to maintain an excellent level of net loans to deposits. Consequently, Lee Bank's average net loan to deposit ratio of 131.1 percent is more than reasonable and exceeds the standards for satisfactory performance given the bank's capacity to lend and the credit needs of the assessment area.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

The second performance criterion is based on the bank's record of lending within its assessment area. Lee Bank's lending activity within the assessment area represents a substantial majority and consequently, exceeds the standards for a satisfactory performance. Both mortgage and small business loan activities were analyzed to determine the bank's performance for this and the two subsequent lending criteria. The period under review constitutes calendar years 2000, and 2001 as well as an interim period through September 30, 2002.

Based on HMDA reported data, Lee Bank granted a total of 1,319 mortgage loans totaling \$153.5 million during the period reviewed. Lending activity inside the assessment area represented 87.7 percent (by number) and 89.7 percent (by dollar) of the total mortgage loans granted.

The following table details the bank's lending inside and outside its assessment area.

Distribution of Home Mortgage Loans Inside and Outside the Assessment Area								
	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2000	329	86.4	34,416	89.9	52	13.6	3,854	10.1
2001	439	86.8	50,898	89.4	67	13.2	6,037	10.6
2002*	389	90.0	52,348	89.8	43	10.0	5,971	10.2
Total	1,157	87.7	137,662	89.7	162	12.3	15,862	10.3

Source: Home Mortgage Disclosure Act – Loan Application Register (HMDA-LAR). *Through September 30, 2002.

The largest number of mortgage loans inside the assessment area were granted within the following municipalities: Pittsfield (268 loans for \$23.3 million), Lee (212 loans totaling \$21.9 million) and Great Barrington (131 loans for \$16.7 million). Overall, Lee Bank granted a substantial majority of its mortgage loans inside the assessment area.

Small Business Loans

The CRA regulation defines a small business loan as “a loan with an original amount of \$1 million or less that is secured by non-farm nonresidential properties or; commercial and industrial loans to U.S. addressees.” This definition is consistent with that found in the FDIC Call Report instructions. In addition, a small business loan is further defined as having gross annual revenues of \$1 million or less.

The bank originated 405 small business loans totaling approximately \$30 million during 2000, 2001 and year to date 2002. A total of 362 loans totaling approximately \$26 million were originated to businesses within the bank’s assessment area, representing 89.4 percent of the number and 88.5 percent of the dollar volume of such lending.

The Town of Lee accounted for the largest number of originations overall with 164 loans or 40.5 percent, followed by the Town of Lenox with 65 loans or 16.1 percent. Lee also accounted for the largest dollar volume of originations overall with approximately \$10 million in loans or 34.1 percent, followed by Lenox with approximately \$6 million in loans or 21.5 percent of the total.

The following table provides additional information regarding the bank’s small business lending, by both number and dollar volume.

Distribution of Small Business Lending Inside and Outside of the Assessment Area												
Year	Inside				Outside				Total			
	Number of Loans		Dollar Volume (000)		Number of Loans		Dollar Volume (000)		Number of Loans		Dollar Volume (000)	
	#	%	\$	%	#	%	\$	%	#	%	\$	%
2000	107	90.7	6,464	94.5	11	9.3	376	5.5	118	100	6,840	100
2001	138	90.2	10,781	88.3	15	9.8	1,426	11.7	153	100	12,207	100
2002*	117	87.3	9,153	84.9	17	12.7	1,633	15.1	134	100	10,786	100
Total	362	89.4	26,398	88.5	43	10.6	3,435	11.5	405	100	29,833	100

Source: Internally Generated Reports. * Through September 30, 2002.

As demonstrated, Lee Bank granted a significant number and dollar volume of its small business loans to those communities within its assessment area. Therefore, Lee Bank's small business lending within the assessment area is considered to be excellent.

In summary, Lee Bank's home mortgage and small business lending activity within the assessment area represent a substantial majority of the total loans originated and consequently exceed the standards for a satisfactory performance.

3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS

This third criterion evaluates the extent to which an institution lends to borrowers of different income levels and businesses of different sizes within its assessment area. The bank's performance for this criterion was found to be more than reasonable and to exceed the standards for a satisfactory performance. Residential mortgage and small business lending were evaluated for 2000, 2001 and year to date ending September 30, 2002, to determine the institution's performance. The bank's residential lending is given the greater weight due to the greater volume of these loans in the bank's loan portfolio.

Borrower income levels are compared to the area median/median family income (MFI) for the MSA to determine the borrowers income levels. By definition, borrowers qualify as low income (below 50% of MSA area median/MFI), moderate-income (between 50% and 79% of MSA median family income), middle-income (between 80 and 119% of MSA MFI) and upper-income (120% or more of MSA area median/MFI). The Pittsfield MSA's median family income (MFI) was \$47,500 and 49,600 in 2000 and 2001, respectively and increased to \$50,400 in 2002. In 2002, a low-income family earned \$24,700 or less, while a moderate-income family earned from \$25,200 to no more than \$39,800, annually. Middle income families had incomes ranging from \$40,300 to \$60,000, while upper income family households earned \$61,000 or more, annually.

The table below details the bank's borrower income distribution for 2000, 2001 and year to date 2002 with cumulative totals for the period.

Distribution of HMDA Loans by Borrower Income Levels								
Income Levels	2000		2001		2002*		Total	
	#	%	#	%	#	%	#	%
Low	20	6.1	20	4.6	27	6.9	67	5.8
Moderate	56	17.0	78	17.8	66	17.0	200	17.3
Middle	101	30.7	119	27.1	91	23.4	311	26.9
Upper	141	42.9	212	48.3	202	51.9	555	48.0
NA	11	3.3	10	2.2	3	0.8	24	2.0
Total	329	100	439	100	389	100	1,157	100

Source: HMDA LAR (Home Mortgage Disclosure Act- Loan Application Register)

The above table depicts the level and trend in Lee Bank's lending to borrowers within the different income categories over a three year period. As indicated, the level of loans originated to low-income borrowers varied; yet the overall trend of lending to this income group remained steady. The bank's distribution of loans to moderate income borrowers remained constant around the 17 percent level.

The following table compares the bank's 2000 and 2001 borrower income distribution to that of the HMDA aggregate lenders. Furthermore, the table compares these presentations to the distribution of family households within the assessment area.

Comparison of Bank's Borrower Income Distribution										
Income Levels	*Family Households		Aggregate Lenders				Lee Bank			
			2000		2001		2000		2001	
	#	%	#	%	#	%	#	%	#	%
Low	4,378	18.8	134	6.1	137	5.0	20	6.1	20	4.6
Moderate	4,371	18.8	361	16.5	342	12.5	56	17.0	78	17.8
Middle	5,628	24.2	491	22.5	609	22.4	101	30.7	119	27.1
Upper	8,917	38.2	855	39.1	1,298	47.6	141	42.9	212	48.3
NA	0	0.0	346	15.8	340	12.5	11	3.3	10	2.2
Total	23,294	100	2,187	100	2,726	100	329	100	439	100

Source: *1990 Census Data; HMDA/LAR Data

Comparison of the bank's performance to the aggregate measures the adequacy of the bank's lending distribution. The aggregate lenders' data also indicates the level of lending opportunities available among borrowers of all income categories. In 2000, Lee Bank's lending distribution of 6.1 percent was parallel to that of the aggregate among

low-income borrowers, while it exceeded the aggregate in the moderate-income groups, with 17 percent. In 2000, the lending distribution of Lee Bank and the aggregate were approximate to the percentage of households falling within the moderate-income category, which represented 18.8 percent. In 2001, Lee Bank exceeded the aggregate in lending to low-income borrowers with 6.1 percent, versus the aggregate performance of 5.0 percent. The bank substantially surpassed the aggregate with 17.8 percent to moderate-income borrowers in comparison to the aggregate performance of 12.5 percent.

The bank's percentage of lending to middle -income borrowers is somewhat higher than the aggregate in both years, and furthermore exceeds the percentage of households falling within those income categories. The comparison to the aggregate is somewhat skewed due to the high number of aggregate loans occurring in the N/A category.

Overall, Lee Bank's combined mortgage lending to low and moderate-income borrowers remained above the aggregate lenders' performance, indicating a level of lending well above market parity. Consequently, Lee Bank's residential lending for this criterion exceeds the standards for a satisfactory rating.

Small Business Loans

The bank's small business loan originations within the assessment area were analyzed based on the loan amount (at the time of origination) and on the gross annual revenues of the businesses to which the loans were granted. This first table details the small business loan originations by loan size.

Distribution of Small Business Loans by Loan Size								
Loan Size (000s)	2000		2001		2002*		Total	
	#	%	#	%	#	%	#	%
< \$100	89	83.2	110	79.7	96	82.1	295	81.5
\$100 - \$250	11	10.3	18	13.0	12	10.3	41	11.3
> \$250 - \$1,000	7	6.5	10	7.3	9	7.6	26	7.2
Total	107	100	138	100	117	100	362	100

Source: Internally generated reports. * Through September 30, 2002.

Of the 362 loans granted, 295 loans or 81.5 percent had original loan amounts of \$100,000 or less, 41 loans or 11.3 percent had original loan amounts of greater than \$100,000 but less than \$250,000. Lastly, 26 loans or 7.2 percent had original loan amounts greater than \$250,000 but less than/equal to \$1 million. Clearly, the high volume of loans (92.8%) granted in the two smaller loan categories reflects favorably on the bank's small business lending activity.

Conversely, the distribution by dollar amounts within each loan size category shows a more even distribution than that based on the number of loans. For the combined years reviewed, actual dollars extended in the over \$250,000 category represented 46.0 percent (less than the majority) of all loans granted.

However (by dollar volume) in 2000, Lee Bank originated 34.4 percent of its small business loans in amounts of \$100,000 or less and 27.7 percent in amounts between \$100,001 and \$250,000. Further in 2001, the bank originated 26.7 percent of its small business loans in amounts of \$100,000 or less and 27.5 percent in amounts between \$100,001 and \$250,000. During the interim period, 2002, small business lending by dollar volume was 27.2 and 20.7 percent, respectively in amounts \$100,000 or less and between \$100,001 and \$250,000.

The second table below provides an analysis of the bank's small business lending based on the gross annual revenues of the business entities.

Distribution of Small Business Loans by Revenues of Business								
Revenues (000s)	2000		2001		2002*		Total	
	#	%	#	%	#	%	#	%
<= \$1,000	96	89.7	131	94.9	104	88.9	331	91.4
> \$1,000	11	10.3	7	5.1	13	11.1	31	8.6
Total	107	100	138	100	117	100	362	100

Source: Internally generated reports. * Through September 30, 2002.

Based on number of loans, Lee Bank has granted an overwhelming majority (91.4%) of small business loans to businesses, whose gross annual revenues were equal to/or less than \$1 million.

Based on the dollar volume in 2000, Lee Bank originated 79.5 percent of its small business loans to businesses with revenues equal to or less than \$1 million. Additionally in 2001 and interim 2002, the bank originated 89.7 and 84.4 percent of its small business loans to these smaller business entities.

Overall the analysis by loan size and gross annual revenues indicates that Lee Bank's small business lending within its assessment area is very good and exceeds the standard for a satisfactory rating.

In summary, Lee Bank's residential lending demonstrates a continued solid distribution of loans granted to low-income and moderate-income borrowers. The borrower income distribution, taken as a whole compares favorably to both the assessment area's demographics and to the aggregate HMDA lenders' performance. Additionally, the bank's small business lending activity reflects a good lending distribution to small businesses based on both the size of loans granted and the gross revenues of the

businesses to which loans were extended. Lee Bank exceeds the standards for a satisfactory performance for this lending criterion.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

The fourth performance criterion evaluates the institution's record of addressing the credit needs of the assessment area based on the geographic distribution of loans. Lee Bank's performance for this criterion is considered to be reasonable and to meet the standards for a satisfactory performance. The census tract median income levels utilize the same comparative incomes applied to borrower income, however based upon 1990 census data.

The table provides the bank's distribution of residential loans among the income levels of census tracts comprising the assessment.

Distribution of HMDA Loans by Census Tract Income Levels								
Income Levels	2000		2001		2002*		Total	
	#	%	#	%	#	%	#	%
Low	2	0.6	2	0.5	2	0.5	6	0.5
Moderate	5	1.5	12	2.7	8	2.1	25	2.2
Middle	294	89.4	391	89.1	356	91.5	1,041	90.0
Upper	28	8.5	34	7.7	23	5.9	85	7.3
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	329	100	439	100	43	100	1,157	100

Source: HMDA LAR

Lee Bank granted the overwhelming majority of residential loans (1,041 loans or 90.0% by number) within the middle income census tracts. There are fourteen middle income tracts, which represent 66.7 percent of the total tracts in the assessment area. Residential loans granted in the upper income tracts represent the second largest portion (85 loans or 7.3% by number) of the above distribution. There are three upper income census tracts, which represent 14.3 percent of the total tracts in the assessment area.

The smallest proportion of the bank's residential lending (31 loans or 2.7% by number) is within the low and moderate-income geographies. There are two low-income and two moderate-income tracts, which represent 9.5 percent each of the total assessment area geographies/tracts.

Lending opportunities are particularly curtailed in the low-income tracts by family household income (52.9% of all families are low-income) and housing composition (only 10.0% of all units are owner occupied and 57.7% are multi-family units). Lending opportunities are comparatively better within the two moderate-income tracts given

family household incomes (37.8% of all families are low-income) and the housing composition (30.5% of all units are owner occupied and 18.5% are multifamily units).

The table below compares Lee Bank's 2000 and 2001 geographic distribution to that of the HMDA aggregate lenders. The table also compares these presentations to the distribution of owner occupied dwellings within the assessment area.

Comparison of Bank's Lending by Census Tract Income Categories										
Income Levels	Owner Occupied Housing Units		Aggregate Lenders'				Lee Bank			
			2000		2001		2000		2001	
	#	%	#	%	#	%	#	%	#	%
Low	232	1.1	46	2.1	54	2.0	2	0.6	2	0.5
Moderate	1,362	6.2	174	8.0	186	6.8	5	1.5	12	2.7
Middle	16,986	76.7	1,627	74.4	2,040	74.8	294	89.4	391	89.1
Upper	3,570	16.0	340	15.5	446	16.4	28	8.5	34	7.7
NA	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	22,150	100	2,187	100	2,726	100	329	100	439	100

Source: 1990 Census Data; HMDA/LAR Data/Aggregate Data (PCI Services, Inc)

As presented above, Lee Bank's geographic loan distribution rests distinctly within the middle income census tracts, with approximately 89 percent of all loans made within those census tracts in both years. When compared to housing demographics and to the HMDA lenders' performance, the bank's distribution appears to lack market penetration within both the low and moderate-income tracts, as well as the upper income geographies.

An institution's market penetration is influenced by product offerings, competition and customer base and marketing presence within these neighborhoods. Lee Bank offers an excellent variety of secondary market and portfolio mortgage products. However, the bank's presence within the City of Pittsfield, where all the low and moderate-income tracts and two (of the three) upper tracts are situated, is limited to a one-person loan production office. Furthermore, with the exception of Lee Bank, all of the other lenders (ranked in the top five) have offices within downtown Pittsfield and understandably have a larger customer base and market presence within the city.

Lee Bank's geographic distribution for residential lending activity is reasonable given its concentration of lending within the middle income geographies. Market presence particularly within the low and moderate-income tracts was consistently below aggregate lenders' levels. Overall, the bank's residential lending for this criterion meets standards for a satisfactory performance.

Small Business Lending by Census Tract

Lee Bank's small business lending was also analyzed to determine the distribution by census tract income level within its assessment area.

Refer to the following table:

Distribution of Small Business by Income Category of the Census Tract								
Census Tract	2000		2001		2002*		Total	
	#	%	#	%	#	%	#	%
Low	1	0.9	1	0.7	1	0.9	3	0.8
Moderate	1	0.9	1	0.7	1	0.9	3	0.8
Middle	103	96.3	134	97.1	113	96.5	350	96.7
Upper	2	1.9	2	1.5	2	1.7	6	1.7
Total	107	100	138	100	117	100	362	100

Source: Internally generated reports. * Through September 30, 2002.

Lee Bank's small business lending activity is also centered overwhelmingly within the middle income geographies. Notably, the institution's main office and two branch offices, one in Stockbridge and one in Great Barrington, are located in middle-income census tracts. Therefore, as indicated in the table, it is reasonable to expect a high volume of the bank's small business lending to be within the middle-income census tracts.

The geographic distribution by dollar volume mirrored the distribution by numbers of loans. In 2000, Lee Bank originated 1.6 and 0.2 percent of its small business loans respectively, within the low and moderate-income census tracts, 97.5 percent of loans within the middle geographies, and 0.7 percent to the upper-income census tracts. In 2001, the bank originated 1.2 percent of its small business lending volume in the low-income census tracts, a mere 0.1 percent to the moderate-income tracts, a substantial 98.5 percent within the middle tracts, and a mere 0.2 percent in the upper-income tracts. Furthermore in 2002, the volume in the low and moderate-income tracts declined to combined 0.6 percent, while loans situated in the middle tract rose to 99.2 percent of all loans. A negligible 0.2 percent were granted within the upper-income tracts.

Lee Bank's geographic small business loan distribution is considered to be reasonable, given the assessment area demographics (14 out of 21 tracts are middle income) and the institution's lack of physical and/or market presence outside of the middle income census tracts. However, Community Reinvestment Act encourages financial institutions to serve all segments of their assessment areas, particularly low and moderate-income neighborhoods.

In conclusion, the geographic distribution for both mortgage and small business loans is centered overwhelmingly within the middle income geographies. This distinct geographic pattern of lending is attributed largely to a lack of market presence within the low, moderate and upper income census tracts and to strong competition from Pittsfield

based financial institutions. Overall, Lee Bank's performance for this lending criterion meets the standards for a satisfactory rating.

4A. OTHER LENDING/FLEXIBLE LENDING PRODUCTS

MassHousing: Lee Bank, for four consecutive years has received recognition from MassHousing (formerly known as, Massachusetts Housing Finance Agency/MHFA) as the leading originator/producer (among state chartered community banks) of its affordable housing products. Lee Bank continues to be in the top 10 MassHousing participant lenders statewide, among banks of all sizes.

The following table details Lee Bank's MassHousing loan originations in 2001, 2002, and currently pending loans.

MassHousing Loan Originations			
	2001	2002	Pending
MassAdvantage (First Mortgages)	58	44	20
MassAdvantage 100 Home Improvement Loans	2	6	--
Lead Paint Loans	9	7	--
Septic Loans	9	2	1

Source: Bank Reports.

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

Lee Bank received no CRA related complaints in the period under review. The bank has a good record of implementing fair lending policies and practices. The following discussion is based on the guidelines of the Division of Banks' Regulatory Bulletin 2.3-101. It is the policy of Lee Bank to maintain maximum compliance with all consumer protection regulations and specifically fair lending regulations. The bank's compliance policy addresses fair lending related training for all employees, second review and internal testing for fair lending compliance.

Lee Bank offers an array of first time homebuyer products. The bank's flexible and affordable first time buyer programs include; MassHousing's Advantage and Advantage 100, Good Samaritan Homeownership loans and the bank's own in-house product, which allows for private mortgage insurance for up to 100 percent LTV (loan to value). MassHousing's program allow for 97 percent or 100 percent LTV and expanded underwriting ratios of 30 percent (housing)/38 percent (total debt). These programs have applicant income and home price limits, which vary by local community. Berkshire Housing Development Corporation (BHDC) offers the Good Samaritan program, which offers an expanded second mortgage and excellent homebuyer education. This program allows many low-income families to own homes, since it focuses on owner-occupied rental property. The program now offers first time buyer construction

mortgages. The variety of first time homebuyer programs offered assists qualified applicants in finding the most economic solution to their home financing needs.

Lee Bank has established relationships with local and statewide organizations dealing with credit, housing or economic development issues. These involvements, along with the bank's MassHousing participant lending activities, are detailed in the Qualified Investments and Services section.

Lee Bank has a Second Review procedure, which requires two other officers, other than the underwriting officer, to review and sign off on all denied mortgage loan applications.

MINORITY APPLICATION FLOW

The bank's minority loan application is compared to the aggregate HMDA lenders' data and to the assessment area's demographics to determine the reasonableness of the institution's level of attracting minority applicants. Based on the 1990 U.S. Census, the assessment area's population is 86,554 of which 3,467 persons or 4.0 percent are minority residents. The minority population consisted of Native Americans (0.2%), Asian/Pacific Islanders (0.7%), African Americans/Blacks (2.1%), Hispanics (0.8%) and Other racial minorities (0.2%).

Lee Bank's minority applications (in 2000 and 2001 combined) represented 5.1 percent of its total applications. In 2000 and 2001, the aggregate HMDA lenders received minority applications of 4.9 and 3.2 percent, respectively of total applications. The following table compares Lee Bank's minority application flow with that of the aggregate lenders.

MINORITY APPLICATION FLOW*								
	Aggregate Lenders % of #'s							
	2000	2001	2000		2001		Bank Total	
			#	%	#	%	#	%
Native American	0.3	0.2	1	0.2	0	0.0	1	0.1
Asian	0.3	0.3	1	0.2	2	0.4	3	0.3
Black	1.3	0.9	4	1.0	1	0.2	5	0.5
Hispanic	0.4	0.4	7	1.7	8	1.5	15	1.6
Joint Race	2.1	1.1	5	1.2	9	1.7	14	1.5
Other	0.5	0.3	3	0.7	7	1.3	10	1.1
Total Minority	4.9	3.2	21	5.2	27	5.1	48	5.1
White	62.2	61.5	373	92.1	493	93.4	866	92.9
NA	32.9	35.3	11	2.7	8	1.5	19	2.0
Total	100.0	100.0	405	100.0	528	100.0	933	100.0

Source: HMDA-LAR, CRA Wiz .

Lee Bank's level of minority applications exceeded the aggregate lenders in the years 2000 and 2001. The bank's level of minority applications remained consistent and demonstrates Lee Bank's ability to attract a more than reasonable level of minority applicants. It is notable that Lee Bank's level of Hispanic applicants is above the aggregate lenders' performance, indicating a response to the growing community of Hispanic residents within the Town of Lee, itself.

QUALIFIED INVESTMENTS AND AND SERVICES

In assessing whether a small institution may warrant an overall "high satisfactory" or "outstanding" rating for its CRA performance, the Division considers performance under the five lending criteria, in addition to other program considerations. In the case of Lee Bank, the institution's performance in making community development loans or qualified investments and its performance in providing branches and other services and delivery systems that enhance credit availability in its assessment area were reviewed.

An investment or service to be considered "qualified" must have as its primary purpose community development as that is defined by the Division's CRA regulation. A community development purpose includes: affordable housing for low and moderate-income individuals, community services targeted to low and moderate-income individuals, activities that promote economic development, and activities that revitalize or stabilize low and moderate-income geographies. In addition, community development services must relate to the provision of financial services.

The bank's qualified investments support an "Outstanding" rating and demonstrate an excellent responsiveness to community credit needs. Lee Bank's community development and retail services help to expand credit availability within the assessment area.

QUALIFIED INVESTMENTS

Berkshire Housing Development Corporation (BHDC)

Berkshire Housing Development Corporation (BHDC) is a non-profit corporation, which serves as Berkshire County's regional agency for affordable housing development. BDHC through its affiliate, Berkshire Fund, Inc, offers the "Good Samaritan Program". The program assists low and moderate income families/individuals purchase homes by offering second mortgage funding for up to 15 percent of the home purchase price. Lee Bank provides direct financial support by purchasing and holding Good Samaritan Homeownership Program Bonds, which fund these second mortgages.

Lee Bank currently holds a total of \$100,500 in Good Samaritan Homeownership Bonds, purchasing \$27,000 of these bonds during the years 2000 and 2001. Additionally, the bank holds \$11,250 in Berkshire Housing Development Corporation bonds.

Charitable Contributions

Charitable grants or donations are considered “qualified Investments”, if they have as their primary purpose community development as defined above. Lee Bank has taken a leadership role in supporting community organizations providing education and training, neighborhood revitalization, youth programs, and health and human services for individuals in need. In some instances, these contributions were substantial, multi-year commitments.

For the period reviewed, Lee Bank granted a total of \$49,382 in qualified charitable donations. In 2000, Lee Bank granted a total of \$24,299 in contributions, of which 68.1 percent were to organizations, whose purposes are considered primarily community development in nature. In 2001, the bank provided a total of \$27,850 in contributions, 54.0 percent are qualified grants under the CRA regulation. For the nine months ending September 2002, Lee Bank made available \$28,391 in contributions/commitments, of which 62.6 percent are considered qualified.

The non-profit corporations to which grants were made include, but are not limited to, Berkshire County United Way, Southern Berkshire Literacy Network; Southern Berkshire Task Force for Families and Children; and Berkshire South Regional Youth Center. Furthermore, grants were provided to Credit Counseling Service of Massachusetts and organizations serving the elderly, such as Elder Services of Berkshire County, and the Town of Stockbridge’s Council on Aging.

QUALIFIED SERVICES

Community Development Services

The CRA regulation defines a community development service as a service whose primary purpose is community development and is related to the provision of financial services. Lee Bank’s officers and employees lend their expertise to community organizations that address community development needs. Detailed below are the bank’s qualified community development services.

Berkshire Housing Development Corporation (BHDC)/Berkshire Housing Services Inc. (BHSI) - Lee Bank’s Senior Vice President of Mortgage Lending continues to serve as Chairman of both the BHDC and the BHSI board of directors.

Lee Bank successfully applied for a **Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP)** direct subsidy on behalf of the Berkshire Fund, Inc. This direct subsidy/grant was awarded in May 1999 for a total of \$96,000 and was used to fund second mortgages under the Good Samaritan Homeownership Program during 2000 and 2001.

Lee Community Development Corporation (CDC): The bank's President and Chief Executive Officer is a board member, as well as Treasurer for this non-profit CDC.

Lee Housing Authority operates low and/or moderate-income housing and housing for the elderly in Lee. A bank Senior Vice President of Mortgage Lending is a member of this organization.

MassHousing The bank's Senior Vice President of Mortgage Lending serves on MassHousing's Single Family Advisory Committee, which helps to develop new loan products meeting the credit needs of low and moderate-income borrowers.

Lee Elderly Housing Corporation: a Senior Vice President serves as Treasurer of this organization.

Railroad Street Project: a loan originator in the Great Barrington office created/initiated this program which focuses on youth initiatives. **Berkshire South Regional Youth Center:** This same individual serves this organization that successfully established a youth community center in southern Berkshire County.

Berkshire County United Way: Lee Bank's Vice President and Controller serves as campaign chair for Berkshire County United Way in the Town of Lee.

Berkshire County Chamber of Commerce continues to play a central role in the area's economic development. The Berkshire Chamber, as a member of the Pittsfield Central Development Corporation, LLC, assisted in providing seed money for the acquisition and redevelopment of the Central Block Building in Downtown Pittsfield. The originator from the Great Barrington office also serves on this organization's board and was recently recognized with the Chamber's Volunteer of the Year Award.

Berkshire Council for Growth is a relatively new organization whose mission is to foster a regional vision for planning and economic growth. The council consists of a large contingency of people countywide involved with planning and economic development issues. Lee Bank's President and Chief Executive Officer serves on the Board of Trustees of this organization.

Lee Industrial Realty Corporation The bank's President serves on the Board of Directors and as Secretary of this corporation.

Retail Services

Lee Bank operates three full service offices, the main office in Lee, an office in Stockbridge, and a newly expanded office, formerly a loan production office, in Great Barrington. The expanded office opened as a full service branch in February 2002. All offices are located in middle-income census tracts. The bank continues to maintain a loan production office in Pittsfield. That office is also located in a middle-income census tract.

Office hours are convenient with extended evening hours on Thursday and Fridays. The main office and the Stockbridge branch location have drive-up facilities that open ½ hour before the lobby opens in the morning. These two locations also offer 24 hour ATM service that are connected to Cirrus, Discover, Plus, Visa, Master Card, American Express, and NYCE networks. In addition, Lee Bank is a member of the SUM network, which provides surcharges free access to member's customers.

Lee Bank is a participant in the Massachusetts Community and Banking Council's (MCBC) **Basic Banking for Massachusetts** program, which encourages banks to offer low-cost checking and savings accounts for people with modest incomes. The bank offers both a checking and savings accounts that comply with MCBC guidelines. A basic checking account is offered which requires a \$ 10.00 minimum balance to open and charges a \$3.00 flat monthly fee. An additional \$.35 per check is charged after eight checks per month. The bank also offers a basic savings account that requires a \$10 minimum balance to earn interest.

Lee Bank continues to offer a toll free, 24 hour "Telebank System". Through the use of a touch tone phone, a customer can gain access to this program. The "Telebank System" allows a customer to: check balances and recent transactions; transfer funds between accounts; pay loans; inquire on rates; perform "what if" deposit and loan calculations; and fax account statements.

In August 2000, the bank began offering on-line Internet banking services at www.leebank.com. At this web site, customers can pay bills, review account balances, transfer funds, view cleared checks, and verify the most recent deposits and withdrawals.

Lee Bank participates in the Commonwealth's Interest on **Lawyers Trust Account (IOLTA) program**, and in 2001 was selected as an "**Honor Roll Bank**" by the IOLTA Committee. The "Honor Roll Bank" designation is given to few participating banks whose account practices enhance its IOLTA remittances. In 2000, the bank sent \$3,399 in interest from IOLTA accounts to the Commonwealth. In 2001, the bank remitted \$2,470 in IOLTA account interest; through September 2002, the bank sent \$2,368 in IOLTA account interest to the program. In turn, the IOLTA Committee distributes these monies to various agencies that provide legal services to lower-income individuals.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

LEE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **NOVEMBER 25, 2002**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
_____	_____
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_____	_____

A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 _____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 75 Park Street, Lee, Massachusetts 01238."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.